

Protecting Wisconsin Consumers for 75 Years

Credit basics

Credit allows consumers to use and enjoy purchases before they have been paid for in full. It comes in many shapes and forms including credit cards, auto loans and home mortgages.

Credit cards come with many perks, beyond the frequent flyer miles and point schemes we hear about so often. They are convenient to carry, and, when used carefully, are safer than cash. If your credit card is stolen, federal law limits your liability. If you have paid for unsatisfactory goods or services with your credit card, you may be able to initiate a “charge back” by contacting your credit card company.

Keep in mind that there are some drawbacks to using credit. It usually costs money, so it is important to make sure you read and understand all of the fine print when you open a new credit account. It is important to keep interest charges and other fees in mind as you gauge the financial impact of a purchase made on credit.

Credit also makes it easy to buy impulsively. It can be hard to remember that purchases made on credit must be paid for later. If you overspend, you run the risk of tying up your future income to pay

for yesterday’s purchases. By spending beyond what your budget allows you to repay comfortably, you may quickly find yourself maxed out.

Credit history

Credit bureaus keep track of the way you use credit that has been extended to you. They keep a file, associated with your name, date of birth, and social security number that is dedicated to recording your financial history – it is your credit report.

Your report includes information about your bill payment and employment history, credit account balances and available limits, your income, and matters of public record that involve you, such as bankruptcy filings, tax liens, civil judgments and criminal convictions.

There are three national credit bureaus maintaining a separate report on you: Equifax, Experian, and TransUnion. These bureaus are private companies that sell the information in your report to others who inquire. They keep a record of all inquiries made about your credit history for the past year.

Accurate information on your credit report, whether favorable or

unfavorable, is removed, with some exceptions, after seven years. Bankruptcy information can remain on your report for 10 years. Civil judgments remain until the statute of limitations expires or seven years – whichever is longer.

The statute of limitations on a judgment can be as long as 20 years in Wisconsin.

Credit scores

The national credit bureaus may also report your credit score, which is a number that is calculated using the information from your credit report. The information that is taken into account for this calculation may include the number, age and type of credit accounts in your name, your credit to debt ratio, your bill payment history and whether any of your accounts have been sent to collections.

Who sees your credit report?

The credit bureaus report the information in your file to companies or people with a legitimate business need for the information. These may include lenders, insurance companies, employers, and landlords. These entities use your credit report to

gauge how financially trustworthy you are.

Lenders and insurers want to know how much of a risk they are taking in doing business with you. They use the information in your credit report to decide whether to lend to or insure you and under what terms. If you have not used credit carefully, it can be difficult to borrow money when you want to finance a really important purchase, like a home or vehicle.

For example, if your credit report shows that you have maxed out your credit cards, a lender may see you as a risky borrower and choose to charge you a high interest rate or not to give you a loan for that shiny new car.

Landlords may use credit reporting as a way to weed out potential tenants who may not dependably pay rent on time. Some employers, believing that a job hunter's general character will be reflected in their credit history, may screen applicants by checking their credit reports before hiring. Prospective employers need your written consent to check your credit report.

Where to start

Because it often takes credit to get credit, building your credit history from scratch can be tricky. Consider asking someone who has already established a credit history to co-sign on a loan for you. But remember, if you do not repay your loan, your co-signer is on the hook.

If getting a co-signer is not an option for you, you might try applying for a credit account with

a local business. Businesses in your area may be more open to extending credit to someone without credit history. After you have established a pattern of timely payments, you may have better luck being offered a credit card from a major company.

A third option is to apply for a secured credit card, which is a card that is tied to a savings account. Your savings account balance, or some portion of it, serves as your credit limit. Major credit card companies are more apt to extend this type of credit to someone without an established history, because the savings account money can pay back the loan in the event that you do not.

Credit, when used responsibly, can help you qualify for more credit, more affordably. Make sure that your lender reports to the credit bureaus regularly. This will ensure that you are well on your way to establishing a sparkling credit history.

Types of accounts

Creditors generally issue three types of credit accounts.

1. Revolving agreement

In this type of agreement, the consumer has the option to either pay the balance off in full each month, or pay a portion of it off. Credit cards are considered revolving agreements.

2. Charge agreement

The consumer must pay a charge agreement balance off in full each month, so no interest accrues. Local businesses often extend credit to consumers under this type of agreement.

3. Installment agreement

The consumer borrows a fixed amount of money at once and commits to a repayment schedule that typically requires equal repayments to be made each month. These loans are often secured by the property the consumer purchased with the loan. Automobiles, furniture, and major appliances, and personal loans are often financed through installment agreements.

Getting the best deal

Shop around before opening a credit card account. The fees, charges and benefits to these accounts all vary a great deal among credit issuers. Here are some variables to pay close attention to as you are comparing different credit accounts:

Annual percentage rate (APR)

This figure expresses the yearly interest rate on the balance. The higher this number, the more interest you will be responsible to pay on your balance. Many credit card companies advertise limited-term low interest rates to lure in customers.

Be sure you find out what the APR will be after the introductory term expires. Keep in mind that some credit card companies may raise your interest rate if you "default" on your agreement by paying late. If this happens, subsequent charges may be subject to an astronomically high interest rate.

Grace period

Many credit card companies offer a set time period between the

date of your purchase on credit and the date interest begins to accrue. If you pay your balance in full during this time period, you will not be charged interest.

Annual fees

Some credit card companies charge you a flat fee each year, simply for being a cardholder. Some charge you monthly!

Transaction fees and other charges

You might be charged a fee for a cash withdrawal from your credit line. You will almost certainly be charged a late fee if your bill is not paid on time or you exceed your credit limit.

Customer service

Many credit card companies have toll-free customer service hotlines that are available 24 hours a day.

Other benefits

Issuers may offer benefits like cash and merchandise rewards or credits towards airfare and gasoline purchases. Before signing up, be sure to assess whether these programs will truly benefit you. You may find that you are better off with a credit card that offers a low APR but does not have a rewards program.

Consider how you plan to use your credit card as you compare the terms offered by each issuer. For example, if you plan to pay your balance off in full each month, having a low APR may be less important to you than paying a low annual fee.

Credit roadblocks

If denied credit due to information in your credit report, federal law requires the creditor to give you both an explanation for the denial and a free copy of your credit report. However, you must make a request for it within 60 days of receiving the denial notice.

If you are extended credit under less favorable terms than are offered to other consumers who have applied, federal law also requires the lender to send you a “risk-based pricing notice,” which includes information on how to obtain a free credit report from the bureau that reported to that lender within 60 days of receiving the notice. Additionally, if a lender obtains your credit score from a credit reporting agency, you will receive a notice that tells you your credit score and provides information on how your score compares with others.

Maintain your credit profile

Make sure that you pay your bills on time. It is smart to put all of your due dates on a calendar, especially if you have a lot of monthly bills. Try to keep your outstanding balances low as compared to your available credit, and do not apply for a lot of credit at once. Lenders pay attention to the number of inquiries made for your credit report.

Be discriminating about what types of credit accounts you open. Some are looked upon more favorably than others – pass on payday loans.

Protect yourself from credit fraud by activating and signing your

credit cards as soon as they arrive. Save sales receipts to reconcile with your billing statement, just as you would do with your checking account. This will help you catch unauthorized or inaccurate charges more quickly.

Guard your account information and beware of scammers who “phish” for it by pretending to represent a legitimate business. Do not give your social security number, credit card number or expiration date out over the phone or internet unless you have initiated the contact and know exactly who you are dealing with. Keep an eye on your credit card when using it in person, and always make sure that it is returned to you after it is been charged. Never sign a blank charge slip.

Carefully consider the risks of co-signing for someone else or lending a credit card to a friend or family member. Your credit privilege is a precious asset that may not be worth risking.

You can also help protect your credit report by making sure that it is accurate. The Fair and Accurate Credit Transactions Act, a federal law, gives consumers the legal right to know what is in their credit report. You are entitled to receive one free credit report per year from each of the three major bureaus. This law does not give you the right to a free annual credit score.

There are three ways to order your free annual credit report:

1. Online at: www.annualcreditreport.com

2. By mail. Send an order form request to:

**Annual Credit Report
Request Service
PO Box 105281
Atlanta GA 30348-5281**

3. By calling: **(877) 322-8228**

The credit bureaus do not share files, but they do receive information about you from the same sources. Since these reports usually contain identical information, you might want to stagger your free credit reports so that you get one every four months. This will allow you to detect and correct errors or fraudulent activity more quickly.

If you are not yet eligible for a free report, or you want to know your credit score, you can purchase these directly from one of the credit bureaus. Contact:

1. Equifax at (800) 685-1111 or www.equifax.com
2. Experian at (877) 397-3742 or www.experian.com
3. TransUnion at (800) 916-8800 or www.transunion.com

Disputing errors

Credit bureaus and creditors are legally required by the Fair Credit Reporting Act, another federal law, to correct inaccurate information in your credit report.

If your credit report contains inaccurate information, you should notify both the credit bureau who prepared it and the creditor, in writing, which information is inaccurate and why. Include a copy of your credit report with the inaccurate information highlighted. Send

your letter by certified mail, return receipt requested.

Unless the credit bureau considers your dispute frivolous, they must investigate, usually within 30 days. After the investigation concludes, the credit bureau must give you the written results. If the investigation determines that the information you have complained about is indeed incorrect, the credit bureau must remove it and provide you with a free copy of your credit report.

If you request, they must also send notices of correction to anyone who has inquired about your credit in the past six months. If any employers have inquired about you over the past two years, you may request the credit bureau to send them copies of your corrected report in full. The creditor must notify the other credit bureaus of the information's inaccuracy and cannot report the wrong information again.

If the dispute is not resolved in your favor after investigation, you have the right to request that the credit bureau include a brief statement noting the dispute in your file. This statement will be reported to anyone who requests your credit report in the future.

Identity theft

If your credit report shows accounts that you did not open, an identity thief may be using your good name to commit fraud.

You should immediately:

1. Call to report this matter to any of the three major credit bureaus. Whichever bureau

you notify will contact the other bureaus. All three bureaus will put a "fraud alert" on your account, which will prevent identity thieves from opening additional accounts in your name.

A fraud alert expires after 90 days, but Wisconsin law allows you to place a "freeze" on your credit report that remains in place until you take action to release it. While Wisconsin law requires the credit reporting agencies to accept requests for freezes in writing by certified mail, all three major credit bureaus allow freezes to be placed online, or over the phone. The credit freeze may cost up to \$10, but is recoverable if you mail to the credit bureau a copy of your local police department's report of identity theft. Contact:

- a. Equifax at (800) 685-1111 or www.freeze.equifax.com
- b. Experian at (877) 397-3742 or www.experian.com/freeze
- c. TransUnion at (888) 909-8872 or freeze.transunion.com

2. Contact the police because Wisconsin law requires your local police department to prepare an identity theft report, even if the theft occurred somewhere else.
3. By both phone and mail, contact your creditors, including those who have extended credit in your name to the identity thief, to advise them that your identity has been compromised. You will also want to contact phone or

utility companies that the thief has opened accounts in your name. Close the accounts you did not open so the thief cannot continue to use them. Consider closing all of your credit accounts and re-opening under new account numbers those you wish to continue using.

4. Contact the Bureau of Consumer Protection for more information or to file an identity theft complaint. You may call (800) 422-7128 to request a complaint form by mail, or download a form online at datcp.wi.gov.

Dealing with debt

In spite of our best intentions, many of us may end up in financial straits at some point in our lives. Unexpected adversities, such as job loss or illness in your family, can be devastating to your pocket book – making it easy to rack up credit card debt. However, putting this problem off will only make it harder to dig yourself out. If you are unable to keep up with your debt repayments, your car could be repossessed, your wages garnished, and you could even be foreclosed on. This will affect your credit.

Examine your budget and try to create a plan of action to pay off your debt. Talk to your creditors before missing payments. They may be willing to negotiate a payment plan that will be workable for you before late payments have damaged your credit. Do not wait until tomorrow if creditors have already sent your account to a collections agency, they may no longer be willing to make such arrangements.

If your debt problem is more than you can manage on your own, seek assistance from a reputable credit counseling agency. Contact the Wisconsin Department of Financial Institutions to see if the agency you have selected is properly licensed in Wisconsin.

Repairing poor credit

There is no quick fix for poor credit. Do not buy into offers to repair your credit that require you to pay before services are provided, recommend against contacting the credit bureaus directly, or tell you to take any sort of action that seems illegal, such as starting a “new” credit identity by applying for an Employer Identification Number to use instead of your own social security number. Making false statements on a credit application is a federal crime, but scammers do not care if they get you in trouble, so long as they get your money. If the negative information on your credit report is accurate, only the passage of time will remove it.

For more information or to file a complaint, visit our website or contact the Bureau of Consumer Protection.

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